

NEWS RELEASE

For Release --

The audit report of Laurens Municipal Broadband Communications Utility for the year ended December 31, 2004 has been released. This report was issued by Hunzelman, Putzier & Co., PLC, C.P.A.'s and filed with David A. Vaudt, Auditor of State.

A copy of the audit report is available for review in the office of the Auditor of State and the Superintendent's office.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

DECEMBER 31, 2004

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2004

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

LAURENS, IOWA

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LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

LAURENS, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert O. Braesch	Trustee	April, 2005
Steve Christensen	Trustee	April, 2007
Brad Olsen	Trustee	April, 2009

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

We have audited the accompanying financial statements of Laurens Municipal Broadband Communications Utility, a component unit of City of Laurens, as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurens Municipal Broadband Communications Utility as of December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9, during the year ended December 31, 2004, Laurens Municipal Broadband Communications Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2005 on our consideration of Laurens Municipal Broadband Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Hungelman, Putzier & Co.

April 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Laurens Municipal Broadband Communications Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utility's operating revenues decreased 21%, or \$216,308, from 2003 to 2004.
- The Utility's operating expenses were 7%, or \$69,699, less in 2004 than in 2003.
- The Utility's net assets decreased 7%, or \$48,262, from December 31, 2003 to December 31, 2004.

USING THIS ANNUAL REPORT

Laurens Municipal Broadband Communications Utility is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Laurens Municipal Broadband Communications Utility's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE UTILITY

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for 2004 totaled approximately \$597,000. This compares to approximately \$645,000 for 2003. A summary of the Utility's net assets is presented below.

	<u>Net Assets</u>	
	<u>2004</u>	<u>2003</u>
Current assets	\$363,241	\$425,607
Capital assets at cost, less accumulated depreciation	<u>411,865</u>	<u>474,752</u>
Total assets	<u>775,106</u>	<u>900,359</u>
Current liabilities	<u>178,145</u>	<u>255,136</u>
Total liabilities	<u>178,145</u>	<u>255,136</u>
Net assets:		
Invested in capital assets, net of related debt	411,865	474,752
Unrestricted	<u>185,096</u>	<u>170,471</u>
Total net assets	<u>\$596,961</u>	<u>\$645,223</u>

The largest portion of the Utility's net assets (69%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The remaining net assets (31%) are the unrestricted net assets that can be used to meet the Utility's obligations as they come due.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues are received for providing cable, internet, and telephone services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2004 and 2003 is presented below:

	<u>Changes in Net Assets</u>	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Cable services	\$164,304	\$ 176,189
Telephone services	545,760	742,532
Internet services	113,929	110,844
Other operating revenue	9,014	19,750
Total operating revenue	<u>833,007</u>	<u>1,049,315</u>
Operating expenses:		
Cable and internet services	235,339	241,982
Telephone services	360,613	432,470
Depreciation and amortization	73,673	76,651
Customers' accounts expense	1,260	116
Administrative and general expense	186,892	177,138
Head end expenses - maintenance	4,236	2,184
Head end expenses - operations	<u>19,256</u>	<u>20,427</u>
Total operating expenses	<u>881,269</u>	<u>950,968</u>
Increase (decrease) in net assets	(48,262)	98,347
Net assets, beginning of year	<u>645,223</u>	<u>546,876</u>
Net assets, end of year	<u>\$596,961</u>	<u>\$ 645,223</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a negative year with a decrease in the net assets at the end of the year.

The Utility's operating revenue decreased 21%, or \$216,308, from 2003 to 2004 primarily because of changes in access fees and the increased use of cellular phones. In 2003, the Utility backbilled the long distance carriers for common carrier line charges. This accounts for over \$120,000 in additional revenues in 2003. Long distance revenues are down because of the increased use of cellular phones and voice over internet protocol.

The Utility's operating expenses decreased 7%, or \$69,699, from 2003 to 2004 because of the reduced access fees and long distance fees. If the revenues from access fees and long distance fees are down, then Long Lines commission is also reduced.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, and capital and related financing activities. Cash provided by operating activities includes charges for service reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase of capital assets.

CAPITAL ASSETS

At December 31, 2004, the Utility had approximately \$412,000 invested in capital assets, net of accumulated depreciation of approximately \$438,000. Depreciation charges totaled \$73,673 for 2004. More detailed information about the Utility's capital assets is presented in Note 3 to the financial statements and in Schedule 1 of the supplementary information.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.

Competition in the telecommunication industry continues to grow. Customers demand more services and being a small utility makes it tough to compete against the larger companies.

The Utility has buried fiber between Laurens and Spencer. This fiber project will make it possible to bring special products and services to our customers that we otherwise could not afford to offer. These services include digital cable, pay-per-view, and high definition services.

The Utility has agreed to lease space on their tower to Cellular One. They in turn have agreed to install equipment to offer additional services to the area. This will generate revenue for the Utility and promote economic development in Laurens by improving the cellular reception.

Due to the fiber project last fall and the requests from Cellular One and Jack Links, the Utility will begin offering special telephony and data circuits in 2005.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurens Municipal Power and Communications Utility, 272 N. Third Street, Laurens, Iowa.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

Exhibit A

	<u>ASSETS</u>			
	<u>2004</u>			2003
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>UTILITY PLANT</u>				
Utility plant in service	\$ 99,786	\$ 749,769	\$849,555	\$ 838,769
Less accumulated depreciation	<u>58,078</u>	<u>379,612</u>	<u>437,690</u>	<u>364,017</u>
Total net utility plant	<u>41,708</u>	<u>370,157</u>	<u>411,865</u>	<u>474,752</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	412,475	(163,378)	249,097	132,518
Accounts receivable (less provision for doubtful accounts of \$1,750 in 2004 and \$6,200 in 2003)	91,880	20,303	112,183	290,886
Prepaid expenses	<u>1,373</u>	<u>588</u>	<u>1,961</u>	<u>2,203</u>
Total current assets	<u>505,728</u>	<u>(142,487)</u>	<u>363,241</u>	<u>425,607</u>
 Total assets	 <u>\$547,436</u>	 <u>\$ 227,670</u>	 <u>\$775,106</u>	 <u>\$ 900,359</u>
 <u>LIABILITIES AND NET ASSETS</u>				
	<u>2004</u>			
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 41,708	\$ 370,157	\$411,865	\$ 474,752
Unrestricted	<u>411,521</u>	<u>(226,425)</u>	<u>185,096</u>	<u>170,471</u>
Total net assets	<u>453,229</u>	<u>143,732</u>	<u>596,961</u>	<u>645,223</u>
<u>CURRENT AND ACCRUED LIABILITIES</u>				
Accounts payable	86,742	80,255	166,997	231,045
Other current and accrued liabilities	<u>7,465</u>	<u>3,683</u>	<u>11,148</u>	<u>9,880</u>
Total current and accrued liabilities	<u>94,207</u>	<u>83,938</u>	<u>178,145</u>	<u>240,925</u>
<u>DEFERRED REVENUE</u>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,211</u>
 Total liabilities and net assets	 <u>\$547,436</u>	 <u>\$ 227,670</u>	 <u>\$775,106</u>	 <u>\$ 900,359</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

Exhibit B

	<u>2004</u>			<u>2003</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>	<u>\$550,525</u>	<u>\$282,482</u>	<u>\$833,007</u>	<u>\$1,049,315</u>
<u>OPERATING EXPENSES</u>				
CATV and internet services	-	235,339	235,339	241,982
Telephone services	360,613	-	360,613	432,470
Depreciation and amortization	8,209	65,464	73,673	76,651
Customers' accounts expense	757	503	1,260	116
Administrative and general expense	130,910	55,982	186,892	177,138
Head end expenses - maintenance	1,233	3,003	4,236	2,184
Head end expenses - operations	<u>8,047</u>	<u>11,209</u>	<u>19,256</u>	<u>20,427</u>
Total operating expenses	<u>509,769</u>	<u>371,500</u>	<u>881,269</u>	<u>950,968</u>
Operating income (loss) and changes in net assets	40,756	(89,018)	(48,262)	98,347
Net assets, beginning of year	<u>412,473</u>	<u>232,750</u>	<u>645,223</u>	<u>546,876</u>
Net assets, end of year	<u>\$453,229</u>	<u>\$143,732</u>	<u>\$596,961</u>	<u>\$ 645,223</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

Exhibit C

	<u>2004</u>			<u>2003</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>				
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash received from customers	\$ 726,887	\$ 270,612	\$ 997,499	\$ 965,149
Cash paid to suppliers and employees	<u>(563,377)</u>	<u>(306,757)</u>	<u>(870,134)</u>	<u>(853,706)</u>
Net cash provided by (used in) operating activities	<u>163,510</u>	<u>(36,145)</u>	<u>127,365</u>	<u>111,443</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Additions to utility plant	<u>(3,015)</u>	<u>(7,771)</u>	<u>(10,786)</u>	<u>(4,781)</u>
Net cash used in capital and related financing activities	<u>(3,015)</u>	<u>(7,771)</u>	<u>(10,786)</u>	<u>(4,781)</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	160,495	(43,916)	116,579	106,662
Cash and cash equivalents at beginning of year	<u>251,980</u>	<u>(119,462)</u>	<u>132,518</u>	<u>25,856</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 412,475</u>	<u>\$ (163,378)</u>	<u>\$ 249,097</u>	<u>\$ 132,518</u>
<u>RECONCILIATION OF NET LOSS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</u>				
Operating income (loss)	\$ 40,756	\$ (89,018)	\$ (48,262)	\$ 98,347
Adjustments to reconcile operating income (loss) to cash provided by operations:				
Depreciation and amortization	8,209	65,464	73,673	76,651
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	176,362	2,341	178,703	(84,101)
Decrease (increase) in prepaid expenses	25	217	242	(238)
Increase (decrease) in accounts payable	(62,483)	(1,565)	(64,048)	22,928
Increase (decrease) in other liabilities	<u>641</u>	<u>(13,584)</u>	<u>(12,943)</u>	<u>(2,144)</u>
Total adjustments	<u>122,754</u>	<u>52,873</u>	<u>175,627</u>	<u>13,096</u>
Net cash provided by (used in) operating activities	<u>\$ 163,510</u>	<u>\$ (36,145)</u>	<u>\$ 127,365</u>	<u>\$ 111,443</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Broadband Communications Utility is a component unit of City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Broadband Communications Utility provides telephone, cable, and internet services to consumers in Laurens, Iowa. Sale of local telephone, cable, and internet services are billed on the twentieth of each month for service from the first to the end of the month billed. Sales of long distance telephone service are billed on the twentieth of each month for usage through the fifteenth of the month. An unbilled receivable in the amount of \$1,708 has been recorded for the period December 15 through December 31. Laurens Municipal Broadband Communications Utility is billed by their telephone, cable, and internet providers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

For financial reporting purposes, Laurens Municipal Broadband Communications Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Laurens Municipal Broadband Communications Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Broadband Communications Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of utility plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2004.

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Revenues:			
Charges for services	\$833,007	\$884,500	\$ (51,493)
Miscellaneous	-	8,500	(8,500)
	<u>833,007</u>	<u>893,000</u>	<u>(59,993)</u>
Expenses	<u>881,269</u>	<u>933,000</u>	<u>51,731</u>
Net	(48,262)	(40,000)	(8,262)
Net assets, beginning of year	<u>645,223</u>	<u>493,876</u>	<u>151,347</u>
Net assets, end of year	<u>\$596,961</u>	<u>\$453,876</u>	<u>\$143,085</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2004 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3.

3. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2004 and 2003:

	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	2003 <u>Total</u>
Distribution plant	\$59,681	\$716,370	\$776,051	\$769,286
Other equipment	<u>40,105</u>	<u>33,399</u>	<u>73,504</u>	<u>69,483</u>
Total plant	<u>\$99,786</u>	<u>\$749,769</u>	<u>\$849,555</u>	<u>\$838,769</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

4. CASH AND CASH EQUIVALENTS

These funds were deposited as follows as of December 31, 2004 and 2003:

	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>2003 Total</u>
Demand deposits	<u>\$412,475</u>	<u>\$(163,378)</u>	<u>\$249,097</u>	<u>\$132,518</u>

These funds bear interest at 1.25%.

5. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ending December 31, 2004, 2003, and 2002, were \$4,833, \$4,828, and \$5,249 equal to the required contributions for each year.

6. RISK MANAGEMENT

Laurens Municipal Broadband Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Laurens, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

8. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Broadband Communications Utility and the Laurens Municipal Light and Power Plant have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$130,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due June 1 of each year. Effective January 1, 2005 the agreement amount was amended to \$145,000.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

9. ACCOUNTING CHANGE

For the year ended December 31, 2004, the Utility implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these standards had no effect on the beginning balances of the Utility.

Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Hungelman, Putzier & Co.

April 21, 2005

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>			<u>2003</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>				
Sale of cable services:				
Basic cable	\$ -	\$143,688	\$143,688	\$ 153,560
Premium channels	-	20,616	20,616	22,629
Sale of telephone services:				
Local	206,272	-	206,272	200,970
Long distance	49,302	-	49,302	77,097
Access fees	290,186	-	290,186	464,465
Internet	-	113,929	113,929	110,844
E-Business	-	-	-	6,182
Other	2,547	-	2,547	9,492
Penalties	102	-	102	320
Converters	-	427	427	685
Miscellaneous	<u>2,116</u>	<u>3,822</u>	<u>5,938</u>	<u>3,071</u>
Total operating revenue	<u>550,525</u>	<u>282,482</u>	<u>833,007</u>	<u>1,049,315</u>
<u>OPERATING EXPENSES</u>				
Cost of service:				
Basic CATV programming	-	99,389	99,389	91,405
Premium channel programming	-	13,733	13,733	13,951
E-Business	-	-	-	2,290
Internet fees	-	39,895	39,895	44,039
Transport fees	34,894	10,322	45,216	74,268
Switching fees	78,415	-	78,415	76,654
Long distance fees	39,785	-	39,785	42,261
Access fees	118,928	-	118,928	167,822
Billing fees	22,164	-	22,164	22,036
Illuminet fees	3,880	-	3,880	6,369
Directory listing fees	4,547	-	4,547	3,357
Joint use fees	<u>58,000</u>	<u>72,000</u>	<u>130,000</u>	<u>130,000</u>
Total cost of service	<u>360,613</u>	<u>235,339</u>	<u>595,952</u>	<u>674,452</u>
Head end system:				
Wages and benefits	4,687	5,196	9,883	8,180
Operating expenses and supplies	3,360	6,013	9,373	12,247
Maintenance and repairs	1,187	2,515	3,702	1,568
Buildings and grounds	46	488	534	616
Depreciation	<u>5,968</u>	<u>63,013</u>	<u>68,981</u>	<u>69,400</u>
Total head end system	<u>15,248</u>	<u>77,225</u>	<u>92,473</u>	<u>92,011</u>
Customers' accounts expense:				
Bad debt expense	<u>757</u>	<u>503</u>	<u>1,260</u>	<u>116</u>
Administrative and general expense:				
Administrative and general salaries	65,232	26,002	91,234	89,673
Office supplies and postage	12,932	4,190	17,122	13,777
Audits, legal, and consultation services	6,584	5,949	12,533	5,190
Property insurance	3,101	1,497	4,598	5,475

(Continued)

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>			<u>2003</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING EXPENSES - (Continued)</u>				
Administrative and general expense: (Continued)				
Compensation insurance	\$ 1,139	\$ 601	\$ 1,740	\$ 3,099
Employees' group insurance	20,614	8,848	29,462	25,512
Trustees' fees	630	270	900	900
Dues and subscriptions	1,908	1,587	3,495	5,306
Franchise requirement - cost of services to City of Laurens	772	2,870	3,642	5,905
Legal publications	885	379	1,264	949
Advertising and promotion	1,915	931	2,846	4,561
Convention, meeting, and travel expense	1,261	816	2,077	4,711
Depreciation	2,241	2,451	4,692	7,251
Motor vehicle and work equipment expense	1,989	888	2,877	504
E911 fees	9,392	-	9,392	10,373
Miscellaneous	<u>2,556</u>	<u>1,154</u>	<u>3,710</u>	<u>1,203</u>
Total administrative and general expense	<u>133,151</u>	<u>58,433</u>	<u>191,584</u>	<u>184,389</u>
Total operating expense	<u>509,769</u>	<u>371,500</u>	<u>881,269</u>	<u>950,968</u>
Net Income (loss)	<u>\$ 40,756</u>	<u>\$ (89,018)</u>	<u>\$ (48,262)</u>	<u>\$ 98,347</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
SCHEDULE OF COMMUNICATIONS PLANT
DECEMBER 31, 2004

Schedule 1

	Utility Plant						Accumulated Depreciation				
	Balance January 1, 2004	Additions	Transfers	Deletions	Balance December 31, 2004	Depreciation Rate	Balance January 1, 2004	Expense	Transfers	Retirements	Balance December 31, 2004
<u>TELEPHONE PLANT</u>											
<u>Distribution System</u>											
Head end equipment	\$ 59,681	\$ -	\$ -	\$ -	\$ 59,681	10.00%	\$ 27,298	\$ 5,968	\$ -	\$ -	\$ 33,266
<u>Other Equipment</u>											
Office furniture and fixtures	11,839	3,015	-	-	14,854	6.70-20.00	5,317	993	-	-	6,310
Transportation equipment	12,759	-	-	-	12,759	20.00	12,759	-	-	-	12,759
Laboratory equipment	11,944	-	-	-	11,944	10.00	4,184	1,194	-	-	5,378
Communication equipment	548	-	-	-	548	10.00	311	54	-	-	365
	<u>37,090</u>	<u>3,015</u>	<u>-</u>	<u>-</u>	<u>40,105</u>		<u>22,571</u>	<u>2,241</u>	<u>-</u>	<u>-</u>	<u>24,812</u>
Total telephone plant in service	<u>96,771</u>	<u>3,015</u>	<u>-</u>	<u>-</u>	<u>99,786</u>		<u>49,869</u>	<u>8,209</u>	<u>-</u>	<u>-</u>	<u>58,078</u>
<u>CATV AND INTERNET PLANT</u>											
<u>Distribution System</u>											
Land	8,280	-	-	-	8,280	0.00	-	-	-	-	-
Towers and antennas	142,058	-	-	-	142,058	5.00	35,515	7,103	-	-	42,618
Buildings	7,105	-	-	-	7,105	5.00	1,762	355	-	-	2,117
Tower site equipment	18,545	-	-	-	18,545	10.00	9,072	1,855	-	-	10,927
Head end equipment	471,662	6,765	-	-	478,427	10.00	215,509	47,504	-	-	263,013
Satellite dishes	52,589	-	-	-	52,589	10.00	26,295	5,259	-	-	31,554
Traps and filters	9,366	-	-	-	9,366	20.00	8,429	937	-	-	9,366
	<u>709,605</u>	<u>6,765</u>	<u>-</u>	<u>-</u>	<u>716,370</u>		<u>296,582</u>	<u>63,013</u>	<u>-</u>	<u>-</u>	<u>359,595</u>
<u>Other Equipment</u>											
Office furniture and fixtures	10,282	1,006	-	-	11,288	6.70-20.00	4,539	1,090	-	-	5,629
Transportation equipment	8,506	-	-	-	8,506	20.00	8,506	-	-	-	8,506
Lab equipment	13,239	-	-	-	13,239	10.00	4,314	1,324	-	-	5,638
Communication equipment	366	-	-	-	366	10.00	207	37	-	-	244
	<u>32,393</u>	<u>1,006</u>	<u>-</u>	<u>-</u>	<u>33,399</u>		<u>17,566</u>	<u>2,451</u>	<u>-</u>	<u>-</u>	<u>20,017</u>
Total CATV and internet plant in service	<u>741,998</u>	<u>7,771</u>	<u>-</u>	<u>-</u>	<u>749,769</u>		<u>314,148</u>	<u>65,464</u>	<u>-</u>	<u>-</u>	<u>379,612</u>
Total Plant in Service	838,769	10,786	-	-	849,555		364,017	73,673	-	-	437,690
Construction Work in Process	-	-	-	-	-		-	-	-	-	-
Total Utility Plant	<u>\$838,769</u>	<u>\$ 10,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$849,555</u>		<u>\$364,017</u>	<u>\$ 73,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$437,690</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
COMMENTS ON STATEMENT OF NET ASSETS
DECEMBER 31, 2004

<u>UTILITY PLANT</u>	Cost	\$849,555	
	Accumulated Depreciation	<u>437,690</u>	<u>\$411,865</u>

Details of the utility plant are shown in the preceding schedule.

<u>CASH AND CASH EQUIVALENTS</u>	<u>\$249,097</u>
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This balance consists of the following:

	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
Demand deposit NOW account:		
Laurens State Bank - money market account	1.25%	<u>\$249,097</u>

<u>ACCOUNTS RECEIVABLE</u>	<u>\$112,183</u>
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This balance consists of the following:

Accounts receivable - cable, internet, and telephone sales:	
November 15, 2004 - December 15, 2004 and past due	\$ 42,045
December 16, 2004 - December 31, 2004	1,708
Accounts Receivable Access Fees:	
October 19, 2004 - November 19, 2004 and past due	41,867
November 20, 2004 - December 31, 2004	28,313
Less: Allowance for doubtful accounts	<u>(1,750)</u>
	<u>\$112,183</u>

<u>PREPAID EXPENSES</u>	<u>\$ 1,961</u>
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This balance consists of the following:

Prepaid insurance	<u>\$ 1,961</u>
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<u>NET ASSETS</u>	<u>\$596,961</u>
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Following is a summary of the changes in this account during 2004:

Balance, January 1, 2004	\$645,223
Change in net assets	<u>(48,262)</u>
Balance, December 31, 2004	<u>\$596,961</u>

ACCOUNTS PAYABLE\$166,997

This balance consists of the following:

National Cable Television Cooperative - December programming	\$ 6,114
Pocahontas E911 - 4 th quarter E911 fees	2,301
Long Lines - Telephone fees	5,645
Long Lines - Carrier access billing fees	14,686
Laurens Municipal Broadband Communications Utility - Joint use fees	130,000
MTV - December programming	1,203
Ahlers Law Firm - professional services	1,309
Laurens House of Print - phone books and supplies	4,448
Various, each less than \$1,000	<u>1,291</u>
	<u>\$166,997</u>

OTHER CURRENT AND ACCRUED LIABILITIES\$ 11,148

This balance consists of the following items:

Accrued vacation, payroll and benefits	\$ 7,416
Accrued sales, use, and excise tax	<u>3,732</u>
	<u>\$11,148</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

We have audited the financial statements of Laurens Municipal Broadband Communications Utility, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Laurens Municipal Broadband Communications Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurens Municipal Broadband Communications Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Laurens Municipal Broadband Communications Utility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 and I-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04, I-B-04, and I-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Laurens, Iowa and other parties to whom Laurens Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelmann, Putzier & Co.

April 21, 2005

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Trustees along with the General Manager will review the financial statements and internal control procedures, in detail, every month. We now have three individuals who will be rotating the duties of opening mail, bank deposits, and recording receipts and disbursements. We also require two signatures on all check disbursements.

Conclusion - Response accepted.

I-B-04 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need,

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part I: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-B-04 Electronic Data Processing Systems - (Continued)

Response - The Utility will work to develop written policies addressing disaster recovery, password privacy, confidentiality, and personal use of computer equipment and software.

Conclusion - Response accepted.

I-C-04 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile Utility billings, collections, and delinquencies for each billing period.

Response - The Utility will develop procedures to reconcile the Utility's billing, collections, and delinquencies for each billing period..

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

II-B-04 Budget - Utility expenditures during the year ended December 31, 2004 did not exceed the amounts budgeted.

II-C-04 Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-E-04 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.

II-F-04 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-G-04 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-H-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.